

ARIZONA DEPARTMENT OF REVENUE

1600 WEST MONROE - PHOENIX, ARIZONA 85007-2650

JANE DEE HULL
GOVERNOR



MARK W. KILLIAN
DIRECTOR

November 14, 2002

Important Notice to all Licensed Tobacco Distributors

With the passage of proposition 303, all cigarette stamps and other tobacco products purchased on or after the effective date of the proposition will be subject to the tax increase. In addition, all unaffixed stamps in the distributor's possession on the effective date will also be subject to the increase.

The Governor is scheduled to sign the proclamation and proclaim the election results final on November 25th, 2002. Therefore the increase will take effect at midnight of that night.

Included with this letter is the inventory form that needs to be completed on the night of November 25th, after the close of business, or on the morning of November 26th, 2002, before any cigarettes are stamped.

The returned goods refund policy is as follows. For 90 days after the effective date, all refunds paid by the state for returned goods will be based on the pre-Proposition 303 tax rates. After 90 days, refunds will be based on the new tax rates. For product returned within the first 90 days, on which the new tax rate was paid to the Department, please contact the Department prior to returning the product for further instructions.

Cigarette distributors who purchase their stamps on bond should consider increasing their bond amount to incorporate the tax increase. If you need assistance in determining the new bond amount based on your previous months' purchases, please call Valerie Platt at (602) 542-4643, ext. 4644.

If you have any questions, please call us.

OTHER LOCATIONS: Tucson Government Mall – 400 W. CONGRESS - TUCSON
East Valley – 3191 N. WASHINGTON STREET - CHANDLER
North Valley – 2902 W. AGUA FRIA FREEWAY - PHOENIX

PROPOSITION 303
HOUSE CONCURRENT RESOLUTION 2047

ANALYSIS BY LEGISLATIVE COUNCIL

In 1994, the voters passed the Tobacco Tax for Health Care Purposes initiative. The initiative increased the state tax on cigarettes, cigars and other tobacco products and directed that the additional revenue generated by the tax be used for health care and education and research related to preventing and reducing tobacco use. The monies collected are deposited in the Tobacco Tax and Health Care Fund and allocated to four separate accounts.

Proposition 303 would increase the state tax on cigarettes, cigars and other tobacco products. The following table shows the proposed tax rates on each class of tobacco product:

<u>ITEM</u>	<u>CURRENT TAX RATE</u>	<u>PROPOSED ADDITIONAL TAX RATE</u>	<u>PROPOSED TOTAL TAX RATE</u>
Cigarettes	2.9¢ each (58¢ per pack)	3.0¢ each (60¢ per pack)	5.9¢ each (\$1.18 per pack)
Smoking tobacco, snuff, fine cut chewing tobacco and similar products	6.5¢ per oz.	6.8¢ per oz.	13.3¢ per oz.
Cavendish, plug or twist tobacco	1.6¢ per oz.	1.7¢ per oz.	3.3¢ per oz.
Small cigars (weighing not more than 3 pounds per 1000)	12.9¢ per 20	13.4¢ per 20	26.3¢ per 20
All other cigars (retailing at not more than 5¢ each)	6.4¢ per 3	6.6¢ per 3	13.0¢ per 3
All other cigars (retailing at more than 5¢ each)	6.4¢ each	6.6¢ each	13.0¢ each

Revenues collected from this tax would be deposited in a new Tobacco Products Tax Fund to be administered by the Arizona Health Care Cost Containment System (AHCCCS) administration. The AHCCCS administration would distribute the monies in the fund in the following manner:

1. Forty-two percent to the Proposition 204 Protection Account for programs and services dedicated to the expanded population eligible for coverage under AHCCCS as a result of the 2000 ballot measure that allocated monies from the tobacco litigation settlement.

2. Twenty-seven percent to the Tobacco Tax and Health Care Fund Medically Needy Account for services to low income and indigent persons.

3. Twenty percent to the Emergency Health Services Account for the reimbursement of uncompensated care, primary care services and trauma center readiness costs.

4. Five percent to the Health Research Fund for research on preventing and treating tobacco-related disease and addiction and other diseases.

5. Four percent to the Health Care Adjustment Account for distribution to other accounts under the Tobacco Tax and Health Care Fund to compensate for decreases in those accounts due to lower tobacco tax revenues from fewer sales as a result of the new tax on tobacco products.

6. Two percent to the Tobacco Tax and Health Care Fund Health Education Account for the prevention and early detection of the four leading disease-related causes of death in Arizona.

Proposition 303 would repeal and, with a few exceptions, reenact word-for-word the current statute that establishes the Tobacco Tax and Health Care Fund Health Education Account. By doing this future legislatures would be prevented by the Arizona Constitution from making any substantial changes to this account. Proposition 303 would reenact the current Health Education Account statute with the following changes: (1) allows the Department of Health Services (DHS) to use a portion of account monies for evaluations of the tobacco education and prevention programs funded by other account monies, (2) requires DHS to use monies deposited in the account from the Tobacco Products Tax Fund for prevention and early detection of the four leading disease-related causes of death in Arizona as determined by the Centers for Disease Control and Prevention (initially, cancer, heart disease, stroke and pulmonary disease) and (3) eliminates the requirement that the Auditor General conduct evaluations of the account programs.

In addition, Proposition 303 would require the Legislature to establish by January 1, 2004 a Tobacco Revenue Use, Spending and Tracking Commission to advise and consult with DHS on the goals, objectives and activities of the tobacco education prevention programs funded by Health Education Account monies.

ARIZONA DEPARTMENT OF REVENUE TOBACCO TAX

1600 W. Monroe, Phoenix, AZ 85007

The passing of Proposition 303 during the General Election of November 5, 2002 has amended Title 42, Chapter 3, of the Arizona Revised Statutes by adding Section §42-3251.01. This amendment has increased the total cost of the cigarette stamps by \$.03 per cigarette. This report is due no later than December 6, 2002. See reverse side for instructions.

Firm Name _____ License Number _____
 Street Address _____
 ATTN: _____ Firm Tax ID# _____
 City _____ State _____ Zip _____

Cigarette	Serial Number From	To	Number of Rolls	Number of Stamps
Fuson Rolls (Blue 20's):				
30,000 per roll				
3,000 per roll				
Partial Roll				
Fuson Rolls (Red 20's):				
30,000 per roll				
3,000 per roll				
Partial Roll				
1. Total 20's: Enter Here				
2. Increase in Stamp Value				\$0.60
3. Value Increase Due (1 x 2)				\$

Cigarette	Serial Number From	To	Number of Rolls	Number of Stamps
Fuson Rolls (Blue 25's):				
12,000 per roll				
7,200 per roll				
Partial Roll				
Fuson Rolls (Red 25's):				
12,000 per roll				
7,200 per roll				
Partial Roll				
4. Total 25's: Enter Here				
5. Increase in Stamp Value				\$0.75
6. Value Increase Due (4 x 5)				\$
7. TOTAL DUE (3 + 6)			\$	

Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, they are correct and complete.

Preparer's Signature _____

Taxpayer's/Authorized Agent's Signature _____

Preparer's TIN: _____

Title: _____

Date: _____

**PROPOSITION 303
INVENTORY FORM**

GENERAL INSTRUCTIONS

You must file this form and pay the additional luxury tax if you are a licensed distributor for cigarettes and other tobacco products.

You must file this form with the Department by December 6, 2002. The money is due on or before December 20, 2002.

Prepare this form regardless of whether or not any tax is due. File the original with the Department of Revenue. Retain a copy of the at least four years, subject to inspection by the Department.

You must provide your taxpayer identification number on the form. A taxpayer identification number is either your federal employer identification number (FEIN), or your social security number (SSN), if you are a sole proprietor, with no employees.

The Licensee or Authorized Agent must sign the form.

If you pay a preparer to complete the form, the preparer must sign the form and include his or her identification number.

State law imposes a 0.5% penalty plus interest of the amount of tax due for each month or fraction of a month if your payment is late, not to exceed

10%. State law imposes a 4.5% penalty of the tax required to be shown on the return for each month or fraction of a month if you fail to file, not to exceed 25%. The combined penalties, however, also cannot exceed 25%.

SPECIFIC INSTRUCTIONS

Enter the serial numbers of the stamps on hand. Indicate the number of rolls and stamps for the serial numbers.

Line 1. Add the number of stamps for all serial numbers of packs of 20. Enter total here.

Line 2. The passage of proposition 303 has increased the value of the stamp by \$.60 for packs of 20.

Line 3. Multiply Line 1 by Line 2. Enter the increase in the value of the stamps.

Line 4. Add the number of stamps for all serial numbers of packs of 25. Enter total here.

Line 5. The passage of proposition 303 has increased the value of a stamp by \$.75 for packs of 25.

Line 6. Multiply Line 4 by Line 5. Enter the increase in the value of the stamps.

Line 7. Add Line 3 and Line 6. Enter the total due.